

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 6757

BILL NUMBER: SB 291

DATE PREPARED: Dec 28, 2001

BILL AMENDED:

SUBJECT: Income Tax Exemption for Dependents.

FISCAL ANALYST: Jim Landers

PHONE NUMBER: 232-9869

FUNDS AFFECTED: ☒ **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

STATE IMPACT	FY 2002	FY 2003	FY 2004
State Revenues		(1,740,000)	(1,780,000)
State Expenditures			
Net Increase (Decrease)		(1,740,000)	(1,780,000)

Summary of Legislation: The bill expands the \$1,500 income tax exemption available for certain dependents of a taxpayer to include a grandchild who is: (1) less than 19 years of age; or (2) a student who is less than 24 years of age.

Effective Date: January 1, 2002 (retroactive).

Explanation of State Expenditures: The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate this change. These expenses presumably could be absorbed given the DOR's existing budget and resources.

Explanation of State Revenues: The bill would reduce state AGI Tax liabilities for individual taxpayers who have dependents that are grandchildren. The revenue loss due to this bill could potentially total approximately \$1.7 M in FY 2003 and \$1.8 M in FY 2004.

Background: Under current law, a taxpayer may reduce his or her state taxable income by \$1,500 per dependent child. For a taxpayer to claim the exemption, the dependent child must be (1) the taxpayer's son, stepson, daughter, stepdaughter, or foster child, and (2) either be under the age of 19 or a full-time student

who is under the age of 24. The bill would extend this exemption to dependent grandchildren. The number of dependent grandchildren in Indiana during 2000 is estimated to have totaled approximately 33,000. This is based on estimates by the U.S. Census Bureau indicating that 1.8% of children under the age of 18 reside in a household maintained by at least one grandparent where neither parent is present. Since the bill covers dependent grandchildren through age 23, the estimates assume the same percentages apply to children through the age of 23. Census 2000 counts for Indiana indicate the population under the age of 19 totals about 1.67 M. Therefore, the number of potential dependent grandchildren in the 18 and under age group is estimated to have totaled about 30,000 in 2000. Census 2000 counts also indicated that the population from 19 to 23 totals about 435,000. The exemption is limited to individuals in this age group who are students. According to Census estimates, about 35.5% of the 19 to 24 age group were enrolled in college in 2000. Therefore, the number of potential dependent grandchildren in this age group is estimated to have totaled almost 2,800 in 2000. Since the expansion of the exemption to dependent grandchildren is effective beginning in tax year 2002, the fiscal impact would begin in FY 2003. Based on the average annual growth of 2.1% in the number of children residing with grandparents since 1970, the potential number of dependent grand children in Indiana is estimated to total approximately 34,000 in 2002 and 35,000 in 2003. With a \$1,500 exemption per dependent grandchild, the revenue loss would total about \$1.7 M in FY 2003 and \$1.8 M in FY 2004. Revenue from the Adjusted Gross Income Tax is deposited in the state General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: Because the proposed change would serve to decrease taxable income, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result, experience an indeterminable decrease in revenue from these taxes.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with a local option income tax.

Information Sources: U. S. Census Bureau, Current Population Reports, *Coresident Grandparents and Grandchildren (P23-198)*, May 1999; U.S. Census Bureau, *Profile of General Demographic Characteristics (Indiana): Census 2000*; U.S. Census Bureau, *The Population 14 to 24 Years Old by College Enrollment*, June 1, 2001.